

Message Text

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FM AMEMBASSY BRUSSELS
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INFO ALL EC CAPITALS
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USEEC

PASS AGRICULTURE ELECTRONICALLY
PARIS ALSO FOR USOECD
GENEVA ALSO FOR USMTN

E.O. 11652: N/A
TAGS: EAGR, EEC
SUBJ: US/EC CONSULTATIONS ON AGRICULTURE - SEPTEMBER 27

1. SUMMARY: THE MEETING FOCUSED ON THE NEGOTIATION OF
COMMODITY ARRANGEMENTS FOR GRAINS AND ON A SUBSIDY/CVD
CODE FOR AGRICULTURE IN THE MTN. THE CATHEDRAL PAPER WAS
ALSO BRIEFLY DISCUSSED. WITH REGARD TO WHEAT, THE US NOTED
THAT MAJOR DIFFERENCES STILL EXIST ON MANY ISSUES AMONG THE
WHEAT EXPORTING COUNTRIES. WE EXPRESSED THE NEED FOR CLOSE
US/EC CO-ORDINATION IF PROGRESS IS TO BE MADE. REGARDING
THE POSSIBILITY OF SPECIAL PROVISIONS FOR DEVELOPING COUN-
TRIES, THE COMMUNITY RAISED THE POSSIBILITY OF INCLUDING
THE COST OF STOCK MANAGEMENT FOR THE POOREST DEVELOPING
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COUNTRIES IN THE ANNUAL IWA BUDGET. THE EC DESCRIBED ITS
POSITION ON A FEED GRAINS AGREEMENT AS OPEN, BUT SAID THAT
THEY NEEDED A STRONGER CONSULTATIVE MECHANISM THAN PROVIDED
BY THE ARGENTINE PROPOSAL. THE EC CONTINUED TO QUESTION
THE NEED TO CLARIFY GATT RULES ON AGRICULTURAL EXPORT
SUBSIDIES. NONETHELESS, THE CONCEPT OF REFERENCE PERIOD
AND EQUITABLE SHARE OF THE WORLD MARKET WERE EXAMINED. US

REPEATEDLY BROUGHT UP THE NOTION OF TRADITIONAL MARKET AS A USEFUL ELABORATION OF EXISTING RULES. THE EC WAS VERY UNFAVORABLE TO THIS IDEA. THE EC SAID THAT THERE HAD BEEN NO STRONG REACTION TO THE CATHEDRAL PAPER, BUT VILLAIN EXPRESSED HIS PERSONAL SKEPTICISM AS TO ITS UTILITY. THE US SIDE NOTED THE IMPORTANCE OF QUICKLY REACHING A COMMON UNDERSTANDING ON THIS ISSUE IN ORDER TO SELL IT TO THE OTHER NEGOTIATING COUNTRIES. ALSO, THE US EXPRESSED A DESIRE FOR FURTHER US/EC MEETINGS ON GRAINS AND SUBSIDIES. END SUMMARY.

2. THE EC DELEGATION WAS CHAIRED BY VILLAIN, THE NEW DIRECTOR GENERAL FOR AGRICULTURE; ALSO ATTENDING WERE JACQUOT, EATON, MARINUCCI AND MRS. DE PASCALE (DG-VI) AND PHAN VAN PHI (DG-I). THE U.S. SIDE WAS HEADED BY ASSISTANT SECRETARY HATHAWAY. OTHER MEMBERS OF THE DELEGATION WERE SAYLOR, FAS; STARKEY, STR; BOSWORTH, STATE; KOENIG, MTN GENEVA AND MISSION OFFICERS MCCARTHY, MONTEL AND PHILLIPS.

3. VILLAIN BEGAN THE MEETING BY REMARKING THAT MEMBER STATE ATTITUDES TOWARD THE MTN AND PARTICULARLY TOWARD THE JULY FRAMEWORK DOCUMENT HAD DETERIORATED IN RECENT MONTHS. WHILE HE MENTIONED THE UNFAVORABLE ECONOMIC SITUATION AS A FACTOR, HE CITED RECENT U.S. ACTIONS (THE COUNTERVAILING DUTY ACTION ON SUGAR, THE CD COMPLAINT ON CANNED TOMATOES AND THE DISPUTE ABOUT THE EXTENSION OF LIMITED OFFICIAL USE

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THE COUNTERVAILING DUTY WAIVER) AS THE MAJOR CAUSE OF THIS DETERIORATION. IT WAS AGREED THAT THE TALKS SHOULD FOCUS ON THE COMMODITY AGREEMENTS FOR GRAINS AND ON THE SUBSIDY ISSUE IN THE MTN AND, SECONDARILY, ON THE SO-CALLED CATHEDRAL PAPER.

4. WHEAT: DISCUSSION BEGAN WITH A REVIEW BY SAYLOR OF THE RECENT MEETING OF THE MAJOR GRAIN EXPORTERS IN WASHINGTON. SAYLOR NOTED THAT THE MEETING HAD UNDERSCORED THE MAJOR DIFFERENCES ON MANY ISSUES THAT STILL EXIST AMONG THE EXPORTERS. IN PARTICULAR, HE CITED THE CONCERN OF SOME OF THE OTHER EXPORTERS REGARDING THE NOTIONAL PRICE CONCEPT, THE MENU OF ACTIONS, EXPORT CONTROLS AND ESPECIALLY THE REQUEST FOR RELIEF FROM OBLIGATIONS TABLED BY AUSTRALIA. SAYLOR SAID THAT SOME EXPORTERS FEARED THAT THE NOTIONAL PRICE SYSTEM WOULD RESULT IN A REAL TRADING OBLIGATION FOR THEM BY VIRTUE OF THE NATURE OF THEIR GRAIN-EXPORTING SYSTEMS. SIMILARLY, THEY FELT THAT THE SUGGESTED WORDING ON RESTRAINT OF EXPORT CONTROLS WOULD BE MORE BINDING ON THEM THAN ON THE UNITED STATES. HE NOTED THE STUBBORN AUSTRALIAN POSITION ON RELIEF FROM OBLIGATIONS AND

EXPRESSED THE BELIEF THAT THE AUSTRALIANS WERE RECON-
SIDERING THEIR POSITION -- WHICH WAS UNACCEPTABLE TO
THE U.S. AND OTHER EXPORTERS. HATHAWAY SUMMED UP BY
STATING THAT IN THE ABSENCE OF AN AGREED UPON AND
COORDINATED SET OF ACTIVITIES BY THE U.S. AND THE EC,
THERE WOULD BE GREAT DIFFICULTY IN MAKING NECESSARY
GGOGRESS AT THE INTERIM MEETING AND THE NEGOTIATING
CONFERENCE. DESPITE LENGTHLY DISCUSSION, U.S. HAD
NOT BEEN ABLE TO PERSUADE OTHER EXPORTERS TO COME TO
A REASONABLE POINT ON SOME OF THE GRAINS ISSUES.
HATHAWAY EXPRESSED HOPE THAT THE EC COULD BE OF SUB-
STANTIAL ASSISTANCE ON THESE ISSUES AND NOTED THAT,
WITH THE EXCEPTION OF KEY ISSUES OF PRICE AND STOCK
SIZE, THE US AND THE EC ARE IN BASIC AGREEMENT.
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THE U.S. SIDE NOTED THE NEED FOR A MECHANISM FOR
DEALING WITH CONTINUING US/EC DIFFICULTIES IN THIS AREA.
SAYLOR EXPRESSED HIS WILLINGNESS TO MEET WITH THE

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C O R R E C T E D C O P Y (TEXT - PARA 5 LINE 4 ADDING MISSING LINE)

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COMMUNITY TO THIS END IMMEDIATELY PRIOR TO THE INTERIM
COMMITTEE OR AT ANY OTHER CONVENIENT TIME. VILLAIN
AGREED THAT THE ONLY IMPORTANT DIFFERENCES IN THE U.S. AND
EC CONCERNED PRICES AND STOCK SIZE. HE FELT THESE WERE
PRACTICAL PROBLEMS WHICH COULD BE SOLVED PRAGMATICALLY.

5. SAYLOR ALSO NOTED THE NEED TO EXAMINE NEW APPROACHES
TO THE PROBLEM OF SPECIAL PROVISIONS FOR DEVELOPING
COUNTRIES. JACQUOT COMMENTED THAT THE AUSTRALIAN PROVI-
SION ON THE RELIEF OF OBLIGATIONS WOULD MAKE THE AGREEMENT
TOTALLY UNATTRACTIVE TO THE DEVELOPING COUNTRIES; THERE-
FORE, THE EC WAS VERY NEGATIVE ON THE AUSTRALIAN POSITION.
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AT PRESENT, THE PROVISIONS FOR STOCK HOLDING BY EXPORTERS
CONSTITUTE THE ONLY BENEFIT OF THE AGREEMENT TO THE
DEVELOPING COUNTRIES. HE DID NOT THINK THAT THIS WAS
SUFFICIENT AND SAID THAT THE U.S. NEEDED TO MAKE FURTHER
EFFORTS TO GIVE THE DEVELOPING COUNTRIES MORE IN THE WAY
OF SUPPLY GUARANTEES. THREE POSSIBILITIES OF MAKING
SPECIAL PROVISIONS FOR DEVELOPING COUNTRIES WERE
DISCUSSED:

A. DIFFERENTIAL PRICING. BOTH THE U.S. AND THE EC
WERE FIRMLY OPPOSED TO THIS.

B. FINANCIAL ASSISTANCE TO LDC'S THAT HOLD STOCKS.
THE U.S. SAID THAT SUCH ASSISTANCE SHOULD BE PROVIDED
BY THE IMF OR BILATERALLY AND THAT A WHEAT AGREEMENT WAS
NOT THE PROPER ORGANIZATION TO EFFECT SUCH TRANSFER OF
RESOURCES. JACQUOT SAID THAT THE COMMUNITY WAS STILL
REFLECTING ON THIS ISSUE. THE MEMBER STATES WERE NEGA-
TIVE AS TO THE POSSIBILITY OF A SPECIAL FUND TO FINANCE
THE CONSTRUCTION OF STOCK-HOLDING CAPACITY OR TO PAY FOR
THE MANAGEMENT OF STOCKS. HOWEVER, THEY APPEARED TO BE
FAVORABLY DISPOSED TO THE IDEA OF INCREASING THE STOCK
LEVELS OF DEVELOPED COUNTRIES AND EITHER TRANSFERRING
THESE STOCKS DIRECTLY TO DEVELOPING COUNTRIES OR PER-
MITTING THEM TO HOLD TITLE TO THE STOCKS. ALSO, THEY
FELT SOMETHING COULD BE DONE FOR DEVELOPING COUNTRIES
WITH REGARD TO THE MANAGEMENT COSTS OF THE STOCKS. THEY
WERE EXPLORING THE POSSIBILITY OF HAVING THE IWA
SECRETARIAT PROCESS ANNUAL REQUESTS FROM THE POOREST
DEVELOPING COUNTRIES FOR REIMBURSEMENT OF THESE COSTS.
THESE REQUESTS COULD BE TALLIED BY THE SECRETARIAT AND

SUBMITTED TO THE COUNCIL EACH YEAR -- AS A LINE ITEM IN THE BUDGET. THE U.S. EXPRESSED INTEREST IN THIS IDEA AND ASKED FOR FURTHER INFORMATION WHILE EXPRESSING THE VIEW LIMITED OFFICIAL USE

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THAT THE VARIOUS INTERNATIONAL CONSORTIUMS ALREADY IN EXISTENCE MIGHT BE BETTER EQUIPPED TO HANDLE THESE COSTS. THE EC ESTIMATED THE ANNUAL COST OF SUCH A PROGRAM (BASED ON A TOTAL STOCK OF 15 MILLION TONS) AT DOLLARS 1.5 MILLION.

C. THE POSSIBILITY OF GIVING DEVELOPING COUNTRIES PREFERENTIAL ACCESS TO STOCKS. THE U.S. SAID IT WOULD BE POSSIBLE FOR US TO ALLOCATE STOCKS IN THIS FASHION; HOWEVER, WE FELT IT WOULD BE UNPOPULAR WITH THE USSR, JAPAN AND PERHAPS THE EC. ALSO, IT WOULD BE DIFFICULT FOR THE WHEAT BOARD COUNTRIES TO ALLOCATE THEIR STOCKS IN THIS FASHION. THE EC DID NOT ADDRESS ITSELF TO THIS POINT.

6. FEEDGRAINS: THE EC ASKED FOR THE U.S. VIEW ON FEEDGRAINS DESCRIBING ITS OWN POSITION AS "MORE OPEN AND LESS CERTAIN" ON THE MEANS AND EVEN THE NECESSITY FOR AN AGREEMENT. HATHAWAY REPLIED THAT THE MOST THE U.S. COULD ACCEPT WOULD BE A CONSULTATIVE MECHANISM UNLESS OUR PARTNERS WERE WILLING TO UNDERTAKE RATHER SPECIFIC OBLIGATIONS REGARDING SUBSTANTIAL STOCK HOLDINGS AND INTERNAL PRICE FLEXIBILITY WHICH WOULD SUBSTANTIALLY AFFECT CONSUMPTION. NO ONE APPEARED TO BE INTERESTED IN THIS. MOREOVER HE SAID THAT THERE APPEARED TO BE ABSOLUTELY NO SUPPORT FOR A FEEDGRAINS ARRANGEMENT ON THE PART OF THE OTHER EXPORTERS AND IMPORTERS. HATHAWAY NOTED THAT IN EFFECT THE UNITED STATES HAD UNDERTAKEN A UNILATERAL STABILIZATION PROGRAM WHICH PROVIDED THE "BEST OF ALL WORLDS" TO IMPORTERS. VILLAIN SAID HE WOULD LIKE TO KNOW MORE ABOUT HOW THE EC COULD BENEFIT FROM THIS PROGRAM. HE SAID THAT THE MAJOR IMPORTING MEMBER STATES WANTED GREATER STABILIZATION OF THE FEEDGRAINS MARKET. IT WAS THEIR COMMON POSITION THAT SOME SORT OF MECHANISM FOR ESTABLISHING CONSULTATIONS ON FEEDGRAINS WAS NECESSARY TO THE RESOLUTION OF THE GRAIN ISSUE IN THE LIMITED OFFICIAL USE

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MTN. JACQUOT SAID THAT SOME MEMBER STATES INSISTED ON AN ELABORATION OF EVENTS OR CONDITIONS THAT WOULD TRIGGER CONSULTATIONS. THE MEMBER STATES ARE, HOWEVER, OPEN AS

TO THE NATURE OF THE MECHANISM WHICH WOULD TRIGGER CON-

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SULTATION, BUT THE ARGENTINE PROPOSAL DOES NOT PROVIDE A
SUFFICIENT GUARANTEE OF CONSULTATIONS. ITS CRITERIA FOR
CONSULTATIONS ARE TOO SUBJECTIVE.

7. SUBSIDIES: VILLAIN SAID THE COMMISSION WAS HAVING
GREAT DIFFICULTY EXPLAINING TO THE MEMBER STATES THE
NEED FOR FURTHER CLARIFICATION OF ARTICLE XVI(3), WHICH
MANY MEMBER STATES VIEWED AS HAVING A "LUMINOUS CLARITY."
HE AND OTHER COMMISSION SPOKESMEN REPEATEDLY QUESTIONED
THE NEED FOR REWRITING OR ELABORATING THE EXISTING GATT
RULES, WHICH THEY INSISTED WERE QUITE ADEQUATE. NEVER-
THELESS, THEY WERE WILLING TO DISCUSS THE CONCEPT OF
REFERENCE PERIODS AND WORLD MARKET. STARKEY REVIEWED THE
BACKGROUND OF THE SUBSIDY ISSUES IN THE MTN AND DREW ON
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THE JULY 13 FRAMEWORK OF UNDERSTANDING AGREED ON IN GENEVA. HE CONCLUDED BY SAYING THAT THE U.S. POSITION WAS NOW A PRAGMATIC ONE. WE COULD NOT WATCH OUR TRADITIONAL MARKETS BEING ERODED BY THE USE OF SUBSIDIES. THEREFORE, WE WERE SEEKING A BETTER UNDERSTANDING OF THE RULES ON EXPORT SUBSIDIES.

8. VILLAIN SAID THAT THE ESTABLISHED GATT PROCEDURE WAS TO USE THE LAST THREE YEARS CHARACTERIZED BY NORMAL CONDITIONS AS THE REFERENCE PERIOD. HE ASKED THE UNITED STATES TO DEFINE "NORMAL CONDITIONS," POSTULATING THE FOLLOWING THREE CASES AND ASKING WHETHER WE WOULD VIEW THEM AS ABNORMAL FOR PURPOSES OF ESTABLISHING A REFERENCE PERIOD: (1) A PERIOD DURING WHICH A SUBSIDY WAS INTRODUCED; (2) A PERIOD IN WHICH AN EXISTING SUBSIDY WAS INCREASED; AND (3) A PERIOD WHERE A SUBSIDY HAD BEEN DISCONTINUED AND THEN REINSTITUTED. IN ADDRESSING HIMSELF TO THESE HYPOTHETICAL CASES, STARKEY UNDERLINED THE KEY ELEMENT AS BEING WHETHER THE SUBSIDY PROGRAM HAD RESULTED IN DISPLACEMENT OF TRADITIONAL SUPPLIERS AND WHETHER THE SUBSIDIES HAD BEEN EMPLOYED INCONSISTENTLY WITH GATT RULES. THE EC SIDE INSISTED THAT EXISTING GATT RULES ALREADY COVER THE CASE WHERE SUBSIDIES ARE EMPLOYED COUNTER TO THESE RULES. AGAIN THEY SAW NO NEED FOR REWRITING OF THE RULES.

9. DISCUSSION THEN MOVED TO THE CONCEPT OF EQUITABLE SHARE OF THE WORLD MARKET. STARKEY SUGGESTED THAT THE CONCEPT OF TRADITIONAL MARKETS SHOULD BE DEVELOPED AS A REFINEMENT OF THE EQUITABLE SHARE CONCEPT. BOTH JACQUOT AND VILLAIN CAUTIONED THE U.S. ABOUT FURTHER ELABORATION OF GATT SUBSIDY RULES AND IN PARTICULAR ABOUT THE TRADITIONAL MARKET CONCEPT. JACQUOT SAID THAT THE ELABORATION LIMITED OFFICIAL USE

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OF RULES MIGHT LEAVE THE U.S. VULNERABLE ON PL 480. VILLAIN SAID THAT ACCEPTANCE OF THE CONCEPT OF TRADITIONAL MARKETS WOULD LEAD, IN FACT, TO A DIVISION OF THE WORLD MARKET. THE U.S. SIDE OBJECTED THAT THE WORLD MARKET CONCEPT WAS NOT ADEQUATE FOR EVALUATING THE IMPACT OF SUBSIDIES. IT COULD CONCEAL A TREMENDOUS DISTORTION OF TRADE IN PARTICULAR MARKETS. THE USE OF THE TRADITIONAL MARKET CONCEPT WOULD MAKE IT EASIER TO DETERMINE TRADE DISPLACEMENT. BOSWORTH AGREED THAT A TOTAL AND COMPLETE APPLICATION OF THE TRADITIONAL MARKET CONCEPT WOULD HAVE UNDESIRABLE EFFECTS. HOWEVER, HE SAID THE GLOBAL MARKET CONCEPT WAS NOT SUFFICIENT. WHAT WAS NEEDED WAS A MERGING OF CRITERIA FROM BOTH CONCEPTS SO

AS TO MEET THE POLITICAL NEED TO REDUCE FRICTION BETWEEN
THE U.S. AND THE COMMUNITY IN TRADE MATTERS.

10. RE THE QUESTION OF NEW MARKETS, VILLAIN SAID THAT IF
WE LIMIT OURSELVES TO THE WORLD MARKET CONCEPT THEN THE
PROBLEM OF NEW MARKETS DISAPPEARS. HOWEVER, IF THE
TRADITIONAL MARKET CONCEPT IS EMPLOYED, SERIOUS DIFFI-
CULTIES WOULD ARISE IN DEALING WITH NEW MARKETS.
JACQUOT REFERRED TO RECENT INTERNAL EC DISCUSSIONS
WHERE SEVEN OF THE NINE MEMBER STATES HAD COMMENTED THAT
THE JULY 13 SUMMIT COMMUNIQUE REFERRED TO TRADITIONAL
MARKETS, AND HE ASKED RHETORICALLY "SO WHERE IS THE
ISSUE OF NEW MARKETS?"

11. HATHAWAY SUGGESTED THAT A SPECIAL WORKING GROUP BE
SET UP TO EXAMINE THE QUESTIONS ON SUBSIDIES. IF THIS
BILATERAL GROUP WERE TO MAKE PROGRESS, THEN OTHER
COUNTRIES WOULD NEED TO BE CONSULTED. VILLAIN SAID THAT
HE WOULD BRING THIS SUGGESTION TO THE ATTENTION OF
GUNDELACH AT A SCHEDULED MEETING NEXT WEEK.

12. CATHEDRAL PAPER: VILLAIN SAID THAT MEMBER STATE
EXAMINATIONS OF THE CATHEDRAL PAPER WERE NOT VERY
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ADVANCED. THEY HAD NOT REACTED STRONGLY TO IT. HOWEVER,
HE SAID THAT PERSONALLY HE WAS LEERY OF THE CREATION OF

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ANY SUPPLEMENTARY ORGANIZATION FOR THE HANDLING OF TRADE PROBLEMS. HE FELT THAT THE PROPOSED COMMODITY ORGANIZATIONS AND THE EXISTING GATT STRUCTURE WERE ADEQUATE TO DEAL WITH SUCH PROBLEMS. HE NOTED THAT HE HAD NOT DISCUSSED THIS ISSUE AS YET WITH COMMISSIONER GUNDELACH. HATHAWAY SUGGESTED THAT HE SHOULD DO SO SINCE IT WAS THE LATTER WHO WAS INDEED RESPONSIBLE FOR THE ORIGINAL IDEA OF A CATHEDRAL PAPER. HE ADDED THAT THE U.S. VIEWED THIS IDEA WITH SOME ENTHUSIASM AS PROVIDING LINKAGE AMONG THE VARIOUS COMMODITY ARRANGEMENTS AND AS TYING TOGETHER THE NEW CONCEPTS DEVELOPED IN THE TOKYO ROUND. STARKEY SAID THAT IT WAS IMPORTANT THAT WE QUICKLY REACH A COMMON UNDERSTANDING ON THIS ISSUE AS IT WILL BE NECESSARY TO EXPLAIN IT TO THE OTHER NEGOTIATING LIMITED OFFICIAL USE

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PARTNERS WHO WERE ALMOST TOTALLY UNAWARE OF THE CATHEDRAL PAPER UNTIL THE JULY MEETING. OTHERWISE, THE OTHER COUNTRIES MAY BEGIN TO ADVANCE THEIR OWN IDEAS FOR A "CATHEDRAL."

13. VILLAIN CLOSED THE MEETING BY STATING THAT THE COMMISSION APPRECIATED THE EFFORTS BEING MADE BY AMBASSADOR STRAUSS TO BRING THE NEGOTIATIONS TO A CONCLUSION, IN PARTICULAR HIS EFFORTS TO EXTEND THE COUNTERVAILING DUTY WAIVER. HE HOPED THAT THE U.S. WOULD AVOID ANY THREATENING ACTIONS IN THE FUTURE. FOR ITS PART, THE COMMISSION WOULD AVOID ANY INITIATIVES WHICH WOULD ENDANGER THE NEGOTIATIONS. HE NOTED EC "PATIENCE" IN THE FACE OF CERTAIN PROVOCATIVE ACTIONS TAKEN BY THE U.S. (E.G. COUNTERVAILING DUTIES ON SUGAR), AND SAID THAT THIS SHOULD BE VIEWED AS A SIGN OF THE COMMUNITY'S WILL TO MAKE THE MTN SUCCESSFUL. HATHAWAY SAID THAT THE U.S. WOULD ALSO AVOID ACTIONS WHICH WOULD ADVERSELY AFFECT THE MTN. HE NOTED THE ALL-OUT EFFORT THE ADMINISTRATION IS NOW MAKING TO SECURE U.S. PARTICIPATION IN THE INTERNATIONAL SUGAR AGREEMENT AND URGED THE EC TO JOIN THIS AGREEMENT. HINTON

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